



11 September 2023

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

Lodged electronically: IPART website

Dear Sir/Madam,

Energy Prices and Consumer Protection in Embedded Networks

Origin Energy appreciates the opportunity to provide comment on the Independent Pricing and Regulatory Tribunal (IPART) review of embedded network prices and consumer protection arrangements.

Origin strongly supports the position that consumers within embedded networks ought to have access to the same price and consumer protections as on-market customers.

Origin's embedded network customers have access to largely the same prices, protections, and regulatory oversight as Origin's standard supply customers. Origin's embedded network customers are currently also automatically placed on prices that are below current regulated rates.

Our embedded network customers have access to all applicable residential customer rebates and concessions, hardship policies, and the Energy and Water Ombudsman scheme and associated dispute resolution services. While not obligated to do so, Origin also provides the same hardship assistance and access to the Ombudsman scheme and dispute resolution services to our hot water customers within embedded networks.

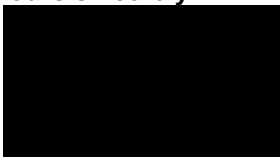
We believe safety net prices and consumer protections should apply equally between embedded network and grid connected customers – that is the Default Market Offer (DMO).

We are concerned that IPART is extending protections to embedded network customers that go beyond the protections mass market customers receive – specifically a lower safety net price. We believe this will create sub-optimal outcomes. It will create price discrimination and introduce regulatory risk to current long-lived investments. This investment uncertainty is likely to create a barrier to future investment for this form of housing.

Origin's responses to each of IPART's consultation questions are provided at Attachment A. Origin's responses to the confidential question are provided at confidential Attachment B.

If you have any questions regarding this submission, please contact Caroline Brumby in the first instance on [REDACTED].

Yours sincerely



Sean Greenup
Group Manager Regulatory Policy

Question 1: Are these the right criteria to use for assessing the different pricing options? Are there any criteria we have missed?

We do not support IPART's preliminary view that a methodology to set maximum prices should result in maximum prices for embedded network services lower than the DMO. We believe this will result in a price discrimination that has the potential for distortionary effects.

Regulatory intervention creates higher risks, especially when sunk costs are involved. These owners made investments under the current regulatory conditions in good faith. Unexpected intervention changes the economics of those original decisions. As a result, future investors in embedded networks are likely to require higher return for exposure to this higher risk meaning the potential for lower investment in future embedded networks.

These are long-lived assets and certainty is necessary to induce ongoing investment. Preferably this should include a regulatory commitment over the time periods approximately equal to the life of the relevant assets. Without such commitment, there is a significant barrier to future investment into this form of housing.

In terms of the change in regulation of water services, Origin believes that one of the most important criteria should be in relation to delivering efficient building designs. Unsuitable price caps, or the banning of the services, could drive poor building solutions. For example, it could lead to the need to build extensive plant rooms in the basement of buildings that lead to greater safety concerns and maintenance costs. This leads to inefficient use of space and increase the costs of providing the services.

Legislative Powers

We do not believe that IPART can consider the sale of hot and chilled water, when billed in the energy input, is the sale of energy. The Retail Law defines energy as 'electricity or gas or both'. It does not allow for the consideration of other supply sources to fit within the Energy Retail Law and thus for the NECF to be extended to hot or chilled hot water services.

These views are supported in the recent AER "*Notice of Final Instrument – Retail Exempt Selling Guideline (Version 6) – July 2022 Review*". The AER investigated whether the supply of chilled and hot water could constitute a sale of energy on the basis that customers are often billed in kilowatt hours, rather than cents per litre. As part of the review, the AER determined that the sale of bulk chilled or hot water is unlikely to constitute the sale of energy for the purposes of the Retail Law¹.

They formed these views from consideration of section 88(1) of the Retail Law which sets out the requirement that a person (the seller) must not engage in the activity of selling energy to a person for premises unless they are the holder of a current retailer authorisation, or the seller is an exempt seller. The Retail Law defines energy as 'electricity or gas or both'. Selling hot water services involve more inputs than electricity or gas – it includes water which falls outside the AER's power to regulate under the NECF.

We believe IPART needs to carefully consider these issues and the views that AER has formed on the definition of 'sale of energy'. Services, where energy is used as source of providing the service, should be dealt with through the development of Guidelines that other documents that assist with the management of the supply of the source.

Question 2: How should maximum prices be set?

As noted above in question 1, we question IPART's authority to set embedded network hot and chilled water prices in the context of water being billed as an energy input.

We strongly support the Default Market Offer (DMO) applying as the price cap for electricity sold through an embedded network. The DMO is an independently calculated price. We believe the application of this price provides an appropriate safety net for customers. Applying different

¹ AER "*Notice of Final Instrument – Retail Exempt Selling Guideline (Version 6) – July 2022, p12*

prices is likely to create confusion for customers both within and outside of an embedded network especially when they move between the two.

Question 4: How should different metering arrangements be taken into account? For example, how should prices be set where services are unmetered, or where water is metered rather than energy?

Origin's electricity embedded networks have NEM compliant smart meters and are billed based on the electricity DMO prices.

For hot water services, the pricing methodology for embedded network services differ based on whether the premises is metered or unmetered.

Unmetered Centralised Hot Water Services

Most of Origin supplied buildings do not have separate gas and hot water meters for the centralised hot water plant. Origin currently bills in cents per litre, based on water usage data gathered from individual apartment hot water meters.

Metered Centralised Hot Water Services

Billing based on cents per kilowatt hour or megajoules, is only relevant where the centralised hot or chilled water system already has dedicated gas and water meters installed in the building or premises. Dedicated meters are largely a historical model of billing for services which was offered by Jemena gas networks. Origin does not support this operating and pricing model.

We do not support this model given our experience of operating in the embedded network market. We have seen that meters regularly fail and require considerable resources to maintain. The 2020-2025 Jemena Access Arrangement proposals suggests more than 100,000 hot water meters in Jemena's network may not working and require ongoing estimated reads. We believe that the continual billing of customers on estimated reads is not a satisfactory outcome for the customer as they may be under or over charged as estimated reads are unlikely to reflect their current usage.

Further, there are challenges in changing meters because of physical constraints around fitting meters on existing building water and gas pipe-works. Meter upgrades or redesigns would need to occur with the costs directly borne by the Owners Corporations.

Finally, the transition costs and ongoing effort to calculate and maintain common factors for water heating will add significant cost to service delivery (this is further discussed in question 6). The conversion pricing will also not only have to consider common factors, but also other input costs (meter installation and operating costs, asset installation and ownership arrangements). We are concerned that these costs will outweigh any benefits to consumers.

Origin does not support IPART mandating the way that an embedded network hot water customer could be billed. There should be flexibility in pricing to allow for the continuation of current arrangements and the benefits of such arrangements to flow to customers.

Question 5: Should prices be set differently for different types of customers, and different types of embedded networks? For example, residential customers, land lease communities, small businesses.

For electricity, DMO prices are an appropriate safety net price for embedded network electricity customers. We do not support separate pricing arrangements for certain customers (i.e. land lease communities).

For hot water customers, we do not believe that differential pricing is required for different types of customers. Hot water is primarily utilised by residential customers and the pricing is relevant to the infrastructure which is installed in the residential buildings. Very limited small business hot water scenarios and if there are small businesses, the infrastructure is similar. We believe segmented pricing will only lead to increased complexities with limited benefits to consumers.

Question 6: Are there any issues or systems constraints on using the common factor to calculate the units of energy for heating and chilling water?

Common factors for the conversion of gas or electricity to hot water is an outdated method (driven by Gas Distributors in the past) of pricing centralised hot water services. Common factors vary by building and can change over time. Experience from the Jemena hot water scheme is that customers do not understand the common factor concept, leading to bill confusion and customer dissatisfaction.

As mentioned earlier, there is a requirement for the centralised hot water plant to have dedicated water and gas/electricity meters, which is not commonplace now, and very difficult/costly to retrofit.

Finally, it should be noted that relying on a common factor for customer billing, provides no incentive for an efficient hot water plant to be installed and maintained. Billing based on cents per litre, provides a strong incentive for an efficient hot water plant to be installed and maintained.

Question 7: How can the maximum price for hot and chilled water be set to provide incentives for energy efficiency?

We believe that our pricing and operating model, of billing customers based on a cents per litre, provides incentives for both building installation and use.

The current use of the common factor calculation does not allow for the individual customer to reduce their account other than to reduce their actual consumption.

The common factor calculation uses the overall site efficiency to determine the individual account and all energy is proportioned to this said account. The use of more efficient hot water equipment and flow and returns system is not of the highest importance at the design stage as all energy utilised will be a direct portion of the total usage.

Under the Origin model, it is the retailer who takes all the risk associated with the efficiency of the site. Therefore, it is of the high importance that the retailer supplies the most efficient equipment and continues to maintain this equipment so that the plant performs at the highest standard and the upmost efficiency.

Question 8: How can the maximum prices provide incentives for low emissions energy generation?

For electricity, the use of the DMO could provide incentives for embedded network operations to install energy efficient assets such as solar energy. While solar does provide energy cost savings, the systems can be very expensive. This is given the complexity of design and installation associated with the height of buildings. If there is not sufficient headroom within the maximum prices to allow for the recovery of the capital costs of solar, operators may not offer the pricing benefit.

Question 9: How should the maximum prices be enforced?

As previously discussed, Origin supports the use of the DMO as the safety net price for electricity embedded networks. This pricing arrangement could be enforced in the same way as the DMO. The DMO framework would need to be extended to included embedded network electricity customers.

We do not support a maximum price framework for centralised hot water customers.

Question 10: Should new hot and chilled water embedded networks be banned? What are the benefits and costs of supplying these services through an embedded network?

For centralised hot water, we do not technically consider this to be an embedded network. An embedded network is where there are child meters behind a parent meter of the same type. Centralised hot water (with water meters downstream of gas meters and heating plant) cannot be defined as an embedded network, and is rather a supply chain of products to deliver a service.

We do not support the banning of serviced hot water services. The provision of centralised hot water services provides considerable benefits to customers within a building. Centralised hot water is a design

feature of many residential apartment buildings, providing benefits of efficiency, space saving, service delivery, and safety, amongst other benefits. However, a centralised hot water service needs a billing solution, to ensure that end users pay for their usage of hot water and are therefore incentivised to be prudent with their usage.

Banning the billing for centralised hot water services will likely mean that developers are forced to design buildings with individual hot water heating units, meaning that the benefits of centralised hot water (mentioned earlier) are not realised.

While Origin offers very limited chilled water services, we do not support the banning of this services. The benefits are similar to those that are addressed above for hot water. While we do not support the banning, there are complexities and framework issues that could be explored further. These are set out in question 15.